

Pollution Control Credit

General Instructions

For assistance, please contact one of the Taxpayer Information and Assistance help numbers:

Phoenix (602) 255-3381
 Tucson (520) 628-6421
 Other Arizona areas 1-800-352-4090
 Form orders (602) 542-4260
 Forms by FAX (602) 542-3756
 Recorded Tax Information
 Phoenix (602) 542-1991
 Other Arizona areas 1-800-845-8192
 Hearing impaired TDD user
 Phoenix (602) 542-4021
 Other Arizona areas 1-800-397-0256
 Internet <http://www.state.az.us/revenue>

Arizona statutes provide a tax credit for expenses incurred to purchase real or personal property that is used within Arizona in the taxpayer's trade or business to control or prevent pollution. The amount of the credit is equal to 10 percent of the purchase price. The maximum credit which may be claimed in a taxable year is \$750,000 for taxable years 1995 and 1996. For years subsequent to 1996 the maximum credit which may be claimed in a taxable year is \$500,000.

A credit allowed under ARS § 43-1081 or § 43-1170 (pollution control equipment) is in lieu of a credit under ARS § 43-1076 or § 43-1164 (recycling equipment credit) with respect to the same equipment.

Co-owners of a business, including partners in a partnership and shareholders of an S corporation, may each claim only the pro rata share of the credit allowed based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

Qualifying property includes a structure, building, installation, excavation, machine, equipment, and any attachment to, or addition to, or reconstruction, replacement, or improvement of that property. Property eligible for the tax credit includes only that portion of the property directly used, constructed, or installed in Arizona to prevent, monitor, or reduce air, water, or land pollution. The property must meet or exceed rules or regulations adopted for this purpose by the United States Environmental Protection Agency, the Arizona Department of Environmental Quality, or a political subdivision of Arizona.

Amounts that qualify for the credit must be includible in the taxpayer's adjusted basis for the property. The adjusted basis of any property for which the taxpayer has claimed a credit must be reduced by the amount of credit claimed for that property.

If the allowable tax credit exceeds the taxes otherwise due or, if there are no taxes due, the amount of the credit not used to offset taxes may be carried forward for not more than five taxable years as a credit against subsequent years' income tax liabilities.

Line-by-Line Instructions

Complete the name and taxpayer identification number section at the top of the form. Fiscal year basis taxpayers must indicate the period covered by the taxable year. Attach the completed form to the tax return.

All returns, statements, and other documents filed with the Department of Revenue require a taxpayer identification number (TIN). The TIN is either a correct social security number or, for a business, the federal employer identification number. Paid tax preparers must also include their TIN on forms where requested.

Taxpayers and paid preparers failing to include the proper TIN may be subject to a penalty. Please check the return to be sure that all required identification numbers are accurate and written clearly. Missing, incorrect, or unclear identification numbers may cause delays in processing the returns.

Part I - Schedule of Equipment and Calculation of Current Taxable Year's Credit

Lines 1 through 10 -

In column (a), enter the date that the property was placed in service in Arizona. In column (b), enter a brief description of the property used in the taxpayer's business in Arizona to control or prevent pollution. In column (c), enter the cost of that portion of the property directly used to reduce pollution.

If there are more than 10 items of qualifying property, complete additional schedules. Attach the completed schedules to Form 315.

Line 11 -

Add lines 1 through 10 in column (c) and enter the total.

Line 12 -

Enter the aggregate column (c) totals from additional schedules.

Line 13 -

Add lines 11 and 12 and enter the total. This is the total cost of all items of property for which the taxpayer is claiming the credit.

Line 14 -

Multiply line 13 by 10 percent and enter the result.

Line 16 -

Enter the lesser of line 14 or line 15. This is the allowable credit for the current taxable year.

**Part II - S Corporations Only -
Special S Corporation
Election and Shareholder's
Share of the Credit**

Line 17 - S Corporation Election

S corporations must complete line 17. The S corporation must make an irrevocable election to either claim the credit or pass the credit through to its shareholders. The election statement must be signed by one of the officers of the S corporation who is also a signatory to the Arizona Form 120S.

Lines 18 through 20 -

If the S corporation elects to pass the credit through to its shareholders, it must also complete lines 18 through 20.

S corporations must complete Part I. Then, complete Part II, lines 18 through 20, separately for each shareholder. The S corporation must furnish each shareholder with a copy of the completed Form 315.

If the S corporation passes the credit through to its shareholders, it must notify each shareholder of the shareholder's pro rata share of the adjustment to income required by the difference between the federal depreciable basis and the Arizona depreciable basis of the property for which the credit is claimed. The S corporation must also notify the shareholder of the shareholder's pro rata share of any difference in gain or loss on the sale or

other disposition of the property due to the difference in basis.

Each shareholder must complete Part IV and Part V.

**Part III - Partnerships Only -
Partner's Share of Credit**

Lines 21 through 23 -

Partnerships must complete Part I. Then, complete Part III, lines 21 through 23, separately for each partner. The partnership must furnish each partner with a copy of the completed Form 315.

Each partner must complete Part IV and Part V.

Part IV - Available Carryover

Complete Part IV only if the allowable pollution control credit for prior taxable years exceeded the Arizona income tax liability for those taxable years.

Line 24 -

Enter the applicable taxable years in columns (a) through (e).

Line 25 -

In columns (a) through (e), enter the amount of the original tax credit earned for that taxable year.

Line 26 -

In columns (a) through (e), enter the amount of the tax credit for that taxable year which has been previously used.

Line 27 -

In columns (a) through (e), subtract the amount on line 26 from the amount on line 25. Enter the result in the applicable columns on line 27. This is the carryover available from prior taxable years.

Line 28 -

Add the amounts in columns (a) through (e) on line 27. Enter the total in column (f) on line 28. This is the total pollution control credit carryover available for the current taxable year.

Part V - Total Available Credit

Line 29 -

Individuals and corporations (including S corporations that elected to claim the credit), enter the current year's credit from Part I, line 16. S corporation shareholders, enter the credit from Part II, line 20. Partners of a partnership, enter the credit from Part III, line 23. This is the current taxable year's pollution control credit.

Line 30 -

Enter the amount from Part IV, line 28, column (f). This is the total available carryover.

Line 31 -

Add lines 29 and 30. This is the total available pollution control credit which may be applied to the current taxable year's tax liability. Enter the total here and on Form 300, Part I, line 11, or Form 301, Part I, line 11.